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FINANCIAL INCLUSION AND ROLE OF COMMERCIAL BANKS IN FINANCIAL INCLUSION

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Abstract
Banking is one of the important factors supporting the growth and development of the economy of a country. For achieving growth, it is very important to ensure that the banking services are available everywhere in the country and every individual is getting access to banking services. In India, majority of the population is not able to access the banking services due to many reasons. Financial inclusion is the concept introduced for providing access to banking services and facilities to rural poor and low income groups. Financial Inclusion means the delivery of financial services to vast sections of disadvantaged and low income groups at an affordable cost. Commercial Banks can play a vital role in the implementation of financial inclusion and support for the growth and development of the people and country. This paper is mainly focusing on financial inclusion and role of commercial banks in financial inclusion.

Key Words: Financial Inclusion, commercial banks, rural poor, Reserve Bank of India.

Introduction

Financial Inclusion means the delivery of financial services to vast sections of disadvantaged and low income groups at an affordable cost. Rangarajan Committee (2008) defined fianancial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost". Commercial Banks play an important role in the development of the economy of a country like India. Banking sector is growing very fast and various changes have been made in banking sector recently. The economic growth and development of the nation is possible only if the status of the vulnerable groups such as weaker sections and low income groups is improved. The major part of Indian population is of weaker sections and low income groups who do not have a bank account or depending private indigenous money lenders for their requirement of credit facilities. In many cases these individuals are exploited by the private money lenders. It is very important and essential to make sure that, the banking services are available to every individual. The non-availability banking services to a large segment of the population may lead to a decline in investment. Financial inclusion helps for improved and better sustainable economic and social development of the country. The main objective of the financial inclusion is easy availability of financial services which allows maximum investment in business opportunities, education, save for retirement, insurance against risk, etc. by the rural individuals and firms.

Objective of this study: The main objective of this study is to have some idea about the concept of financial inclusion and the role of commercial banks in financial inclusion.

Importance of Financial Inclusion

The government of India gives more importance to financial inclusion as result of financial inclusion will help for the improvement of the life status of the vulnerable groups such as weaker sections and low income groups. The importance of financial inclusion can be described as under:

a) Availability of Credit Facilities: Presently unbanked population and vulnerable groups are depending indigenous money lenders for their need for credit facilities. But in this case usually they are exploited by the money lenders. If they are provided with banking facilities, it will help them to improve their standard of living in many ways. Availability of adequate and transparent credit facilities from banking channels will support the entrepreneurial spirit of the people and contribute to development and improvement.

b) Supports the Habit of Savings: The lower income category has been living under constant shadow of financial problems due to absence of savings. The availability of banking services and facilities motivates them to save money. Financial inclusion helps for availability of various options such as savings bank account, fixed deposit account, insurance facilities, mutual funds, etc.

c) For Availing Benefits of Public Subsidies and Welfare Programmes: A considerable sum of money that is meant for the welfare of weaker sections is not utilized for the benefit of them. These funds are diverted by some other groups. So the government pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. This effort is expected to provide relief to the real beneficiaries. All the efforts require an efficient and affordable banking system that can reach out to all.

Background of the Concept of Financial Inclusion in India

The Khan Commission (2004) and The Rangarajan committee (2008) were the major initiators of financial inclusion in India. The Reserve Bank of India has set up a commission (Khan Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005-06**)**. In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by Mr.K C Chakraborthy, the chairman of Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. In addition to this KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the RBI permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Puducherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states.

The Rangarajan Committee, headed by Mr.C Rangarajan, submitted its report on financial inclusion in January 2008. The Committee suggested that each branch PSU banks should open 250 new accounts every year. The committee also recommended that individuals should be appointed as banking correspondents, only non-government organisations and micro finance institutions could be appointed as banking correspondents as per RBI norms. The Committee emphasized the importance of role of Regional Rural Banks, the SHG - Bank Linkage Programme, Micro Finance Institutions (MFIs) and Non Banking Finance Companies (NBFCs) , Co-Operative systems Micro Insurance, etc. for Financial Inclusion.

RBI, Government of India are introducing new schemes to achieve the objective of financial inclusion. Government of India and RBI introduced many schemes like Pradhan Mantri Jhandhan Yojana , Pradhan Mantri Jeevan Jyoti Bima Yojana , Atal Pension Yojna, Pradhan Mantri Suraksha Bima Yojana to promote financial education. Many financial Education centres are providind education about banking and financial services. All such efforts will results into the positive effect on living standard of people and economic growth of the nation.

Advantages of Financial Inclusion

The concept of Financial Inclusion has many advantages. The main advantages of financial inclusion are as under:

1. **Safe savings along with financial services** - People will have safe savings along with other allied services like insurance cover, entrepreneurial loans, payment and settlement facility etc.
2. **Financial Transactions Made Easy:** Financial inclusion makes banking transaction easy and fast
3. **Economic Growth and Development of the Country**: Financial inclusion contributes to the growth and development of the economy of our country.
4. **Reducing the Level of Poverty:** To remove poverty from the Indian context everybody will be given access to formal financial services. Because if they borrow loans for business or education or any other purpose they get the loan will pave way for their development.
5. **Inflating National Income:** Boosting up of business opportunities will definitely increase GDP and which will be reflected in our national income growth.
6. **Becoming Global Player:** Financial access will attract global market players to our country that will result in increasing employment and business opportunities.
7. **Reduces Loss due to Theft:** Banks provide facilities like locker systems and the same helps for reducing risk of theft.
8. **Increase in the Business of Banks:** Financial inclusion supports for increase in the level of business of banks.

Factors affecting Financial Inclusion

1. We have discussed about the benefits and importance of financial inclusion. If this concept is implemented as per planned it would help our country in many ways. But there are some factors which make problems in the process of financial inclusion. The main affecting factors are as under:

1. **Lack of Literacy :** The lack of financial literacy and lack of minimum basic education will affect financial inclusion. People may be hesitated to use banking facilities as they are not aware of the benefits.
2. **Legal Identity:** Many of the people may not have legal identity such as Election ID, Driving License, Birth Certificate, etc. Even Though Reserve Bank of India and Government try to simplify the KYC norms it will not possible to open account in any bank without the minimum identity requirements.
3. **Level of income:** The income level of people also affects financial inclusion. Usually the low income group thinks that the banking services are only for rich people and not for them. This attitude is to be changed through some awareness programmes.
4. **Geographical Remoteness:** As the name suggests that commercial banks usually operate only in commercially profitable areas and they set up branches and main offices only in that areas. People who live in under developed areas find it very difficult to go to areas in which banks are situated. The more branches are to be opened in remote area where presently banking services are not available.
5. **Complicated procedures:** Due to illiteracy and lack of basic education the people may feel the banking procedure as more complicated and they may not be interested to start banking.
6. **Terms and Conditions:** The banks put many terms and conditions at the time of availing a loan facility or opening an account. So the illiterate and vulnerable group may not able to avail these facilities as they may not be in a position to accept these terms and conditions.
7. **Psychological and Cultural Barriers :** Many people voluntarily excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services.

Role of Commercial Banks in Financial Inclusion

Financial Inclusion is one of the topmost policy priorities of the Government of India. The Reserve Bank of India has taken a proactive role in ushering the enabling environment for expediting financial inclusion across length and breadth of the country through bank led model. The Commercial Banks have an important role in implementation of financial inclusion programme. They support for financial inclusion in many ways as under:

1. **No Frill Accounts:** Usually in Savings Bank Account a minimum amount of balance is to be maintained. If it is not maintained the banks charge penalties for not maintain minimum balance. It may not possible for low income group to maintain the minimum balance in savings account. So they may be hesitated to open bank account. No Frill accounts are those savings accounts in which minimum balance of amount is not to be maintained. These accounts have been introduced as a part of financial inclusion. The low income group can make use of No Frill accounts and they can avail banking facilities.

2. **Over Draft in Savings Accounts** : This facility helps the low income groups to avail credit facilities as Over Draft in their savings account. This attracts more people to open bank accounts and make use of banking facilities. This supports the implementation of financial inclusion.

3. **Financial Literacy Programmes** : Providing Financial literacy and make aware the people about the benefits and necessity of banking is the core function of financial inclusion. The banks conduct awareness programmes at various levels to make aware the people regarding banking facilities and benefits. The main functions to be performed by commercial banks in relation with financial literacy are:
   a. Disseminating information regarding financial services and general banking concepts to various target groups, including school and college going children, women in rural places and urban poor, senior citizens, etc.
   b. Extending financial education which will include:

   Need for savings,
   Advantages of banking with formal financial institutions, various financial products offered by banks relating to deposits and advances.
   Other financial services through electronic mode such as ATMs, Smart Cards, mobile banking etc.
   Method of calculation of interest on savings bank accounts, Fixed Deposits.
   Benefits of nomination facilities of accounts.
   c. Bringing awareness of customer rights under fair practice code.
   d. Organizing public awareness campaigns, seminars, press conferences etc.

4. **Kisan Credit Cards (KCC) and General Credit Cards (GCC) :** Kisan Credit Card is a credit card to provide affordable credit for farmers in India. Started in 1998 by the joint efforts of Government of India, Reserve Bank of

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India (RBI), and National Bank for Agriculture and Rural Development (NABARD) to help farmers access timely and adequate credit. This card allows the farmers to have cash credit facilities without going through time-consuming bank credit screening processes repeatedly. Repayment can be rescheduled if there is a bad crop season, and extensions are offered for up to four years. The card is valid for five years and subject to annual renewals. Withdrawals are made using slips, cards, and a passbook.

Banks were asked to introduce a general credit card (GCC) scheme for issuing GCC to their constituents in rural and semi-urban areas based on the assessment of income and cash flow of the household similar to that prevailing under normal credit card without insisting on security and the purpose or end use of credit (as Point Of Sale-POS and ATM facilities) with similar products are not feasible or available and limited infra structure in rural areas. The limit under GCC is up to 25000 rupees. Banks were advised to utilize the services of Schools, Primary Health Centre, local government Functionaries, Farmers' Association / Clubs, well established community based agencies etc.

5. **Opening of Branches in Rural Locations**: Opening of new branches in unbanked rural locations is a very important step to be taken as a part of financial inclusion. The Reserve Bank of India issued instructions to State Level Bank Committee (SLBC) Convener Banks in all states to identify unbanked villages and to draw a roadmap for allocating these villages among banks so as to ensure the presence of at least one banking outlet in each village of the country in a time-bound manner. Banks reported having covered all unbanked villages. If all the villages and rural areas are covered by the banks by opening their branches it will be great achievement towards the purpose of financial inclusion.

6. **Self Help Group -Bank Linkage Programme (SBLP):** This is a very helpful step for financial inclusion and it helps the vulnerable lower income group to avail credit facilities. Self Help Group-Bank Linkage Programme (SBLP) aims to deliver financial products and services to the section of Indian population that lacks access to formal banking. This segment, often from the lower income, meets its financial needs through informal sources such as money lenders, traders, family and friends etc. However, these sources have their own limitations. Under SBLP, 10-20 individuals are organised in groups known as Self Help Groups (SHGs) by NGOs commonly known as Self Help Promoting Institutions (SHPI). The SHGs are also encouraged to take up livelihood activities, for which skill training is provided by certain NGOs. The members of the SHG are encouraged to save and internally lend the savings to members during times of need. SHPIs also provide knowledge on managing books of accounts. SHGs get linked to banks via NGOs, for opening savings account and for their credit requirements. Banks lend to SHGs after assessing their credit worthiness on parameters such as group discipline, regularity of meetings, savings, rotation of funds, maintenance of books of accounts, group record keeping, repayment of loans etc.
   Under the SBLP, the following three different models have emerged:

   Model I: SHGs promoted, guided and financed by banks.
   Model II: SHGs promoted by NGOs/ Government agencies and financed by banks.
   Model III: SHGs promoted by NGOs and financed by banks using NGOs/formal agencies as financial intermediaries.
   Model II has emerged as the most popular model under the SBLP programme. Commercial banks, co-operative banks and the regional rural banks have been actively participating in the SBLP.

7. **Business Correspondents (BCs) and Business Facilitators (BFs):**
   Business Correspondents (BCs) & Business Facilitators (BFs) are representatives appointed by banks to act as their agent and provide banking services in remote locations where the bank does not have a presence in order to promote financial inclusion. The BC/BF model will offer an effective way, for the banks, to reach the un-reached population at large, customers and intermediaries alike. In this model banks do not have to invest in costly infrastructure of a branch to reach the un-banked area and at the same time the people who remained excluded so far will be assured of easy access to financial products and services. For this to happen a large number of BC/BFs, who are not bank employees but are outsourced by banks - across the country to function as their agents - would be needed. This will help rural poor and rural society to improve standard of living and make financial inclusion a reality with in a time frame.

8. **Simplification of KYC Norms :** With a view to ease the difficulties faced by common persons while opening bank accounts and during periodic updating, The Reserve Bank of India , in August 2014, simplified the KYC guidelines

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for opening an account. The banks have been advised to seek only a photograph of the account holder and self certification of addresses(the amount of outstanding balance in these accounts would be limited to 50000 rupees and total transactions would be limited to one lakh rupees in one year. This will help for the progress of financial inclusion.

Conclusion

The concept of financial inclusion is very important for the growth of the economy. It helps for the improvement of the standard of living of the low income group and rural poor. The commercial banks can play an important role for achieving 100% financial inclusion through their support such as opening of no frill accounts, allowing over draft facilities in savings account, providing financial literacy, providing Kisan Credit Cards and General Credit Card facilities, opening of branches in rural areas, Self Help Group-Bank Linkage Programme (SBLP), appointing Business Correspondents and Business Facilitators, simplification of KYC norms, etc.

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